

OFFICE OF THE COMPTROLLER

13 SEP 1983

NOTE FOR: Executive Director

1. The attached proposal requests your approval to increase the maximum termination liability included in a "special termination clause" for contractual efforts associated with the NPIC upgrade. You will recall your approval on 12 October 1982 for adoption of the "special termination clause" to permit the use of total funding under a contract

for actual work

rather than setting aside specific amounts against a potential termination liability. The revised potential liability

results from negotiations on a fixed price subcontract with who have agreed to forego normal progress payments provided the government assumes a termination liability should the contract be terminated prior to completion.

2. We have examined this proposal and determined that in principle it is in conformance with the original contractual agreement. We believe the risks remain minimal and manageable, and therefore recommend your approval

Daniel A. Childs, Jr.
Comptroller

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Special Termination Costs for NPIC

FROM:

Director/NPIC

EXTENSION

NO.

DATE

NPIC/D - 203-83

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. C/PMS/DDS&T
Room 6E60, Hq2. DDS&T
Room 6E60, Hq3. C/PMS/OL
Room 2G31,4. D/OL
Room 2C02,5. Comptroller
Room 4E42, Hq6. Executive Director
Room 7D55, Hq7. C/DPG/CS/NPIC
Room 2N135C,8. *Ex Sec.*

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NPIC/D-203-83
7 July 1983

MEMORANDUM FOR: Executive Director

THROUGH: Chief, Procurement Management Staff, DDS&T
Deputy Director for Science and Technology
Director of Logistics
Comptroller

FROM: R. P. Hazzard
Director, National Photographic Interpretation Center

SUBJECT: Special Termination Costs for NPIC [redacted]
[redacted]

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REFERENCE: NPIC Memorandum NPIC/D-354-82, same subject,
dated 13 September 1982

1. On 12 October 1982, your approval was secured to incorporate the Special Termination Costs Clause, DAR 7-108.3, in the subject incrementally-funded contract in accordance with the referenced memorandum. The maximum termination liability involved at that time was [redacted] in FY83 and [redacted] in FY84 to cover [redacted] and their subcontract liabilities [redacted]

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2. A main element of the contractor's work under the contract, not a factor in the approved termination liability above, is the development and procurement of the Analyst Integrated Display Station (AIDS). A significant portion of the AIDS effort [redacted] will be acquired from [redacted] under a firm fixed price subcontract. In order to meet the established delivery schedule [redacted] must incur costs, and make material commitments and deliveries in advance of funds being made available by the Government. [redacted] in addition to providing the least costly proposal in the [redacted] competitive procurement, has agreed, thru lengthy negotiations to forego normal progress payments and in effect assume a substantially greater exposure because of the deferred payment approach proposed for this effort. [redacted] will accept this financial risk during the performance period provided the Government recognizes a potential termination liability to [redacted] if the project should be terminated prior to final delivery, acceptance and payment.

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3. As a result of the negotiations and in order to maintain the NPIC Development Program within the approved appropriation, and prevent an unacceptable schedule impact, an increase in the maximum termination liability contingency in [redacted] contract, to provide solely for [redacted] activity, is requested as follows:

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SUBJECT: Special Termination Costs for NPIC [REDACTED]

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4. This increase in termination liability is directly attributable to the Fiscal Year funding constraints and [REDACTED] successful negotiations with [REDACTED] to provide a payment schedule establishing a lump-sum payment to each Fiscal Year, in lieu of Progress Payments or Milestone Payments. Any other form of contract finance or payment would require funds not presently available and necessitate a change in the performance/delivery schedule. These alternatives to the proposed action are not considered feasible or advantageous.

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5. It should be noted, that the total termination liability figures are a not-to-exceed amount (i.e., worst case.) Since the product being delivered will according to [REDACTED] become a commercial product in the vendor's line, the likelihood of the contractor mitigating most of the potential termination liability through the diversion of terminated work to other customers is extremely high, thus minimizing the actual termination liability against the subject contract. Although the [REDACTED] subcontract is firm fixed price in the event of termination (if other than for default) it would be subject to Government termination and cost principles, with the actual liabilities subject to audit and negotiated settlement.

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6. Attached is the breakout of termination liability costs associated with the request.

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[REDACTED]
R. P. HAZZARD

Attachment:
As stated

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Next 1 Page(s) In Document Denied